

# The Retirement Systems of Alabama

Component Units of the State of Alabama

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2007

The Retirement Systems of Alabama  
Consists of:

TEACHERS' RETIREMENT SYSTEM of ALABAMA  
EMPLOYEES' RETIREMENT SYSTEM of ALABAMA  
JUDICIAL RETIREMENT FUND

(Each a Component Unit of The State of Alabama)

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David G. Bronner, Ph.D., J.D., Chief Executive Officer

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# INTRODUCTORY SECTION

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# Retirement Systems of Alabama



## Teachers'

Paul R. Hubbert, Chair  
Sarah Swindle, Vice Chair

David G. Bronner, CEO  
Marcus H. Reynolds, Jr., Deputy

## Employees'

State State Police Public Judicial  
Bob Riley, Chair  
John H. Wilkerson, Jr., Vice Chair

March 20, 2008

The Boards of Control  
Teachers' Retirement System of Alabama  
Employees' Retirement System of Alabama  
135 South Union Street  
Montgomery, AL 36130

Dear Board Members:

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the Retirement Systems of Alabama (RSA or Systems) for the fiscal year ended September 30, 2007. The Retirement Systems of Alabama includes the Teachers' Retirement System of Alabama (TRS), the Employees' Retirement System of Alabama (ERS), and the Judicial Retirement Fund (JRF). Each system is considered a component unit of the State of Alabama for financial reporting purposes, and, as such, the financial statements contained in this report are also included in the State of Alabama Comprehensive Annual Financial Report.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Systems. Sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules, and statistical tables. I trust that you and the members of the Systems will find this report helpful in understanding your retirement system.

## Administration and Plan History

The TRS, ERS, and JRF operate under common management and are collectively referred to as the Retirement Systems of Alabama (RSA). In addition to executive management, the TRS, ERS, and JRF share investment management, accounting, and information system services, the costs of which are allocated to the funds on an equitable basis. The TRS was established under the provisions of Act 419 of the Legislature of 1939 to provide benefits to qualified persons employed by State-supported educational institutions. The ERS was established under the provisions of Act 515 of the Legislature of 1945 to provide benefits to State employees, State police, and, on an elective basis, to qualified persons of cities, towns, and quasi-public organizations. The JRF was established under the provisions of Act 1163 of the Legislature of 1973 to provide benefits to qualified judges and justices. Additional information regarding the administration and history of each system, including laws establishing each plan and services provided, can be found in the *Financial Section - Notes to the Financial Statements* portion of this report.

## Financial Information

*Accounting Method* - As required by Generally Accepted Accounting Principles (GAAP), the financial information of the TRS, ERS, and JRF is reported on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the corresponding liability is incurred. Investments are reported at fair value.

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*Internal Controls* - The management of the RSA is responsible for maintaining the system of internal controls (system). The system provides management with reasonable, but not absolute, assurance regarding the safeguarding of assets against loss or unauthorized disposition and the reliability of the financial records from which the financial reports are prepared. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefits.

*Summary Comparative Data* – Management’s Discussion and Analysis (MD&A) includes a narrative introduction, an overview of the financial statements, including the notes, and required supplementary information, and summary comparative data for fiscal years 2007 and 2006. Also, an analysis of significant variances between fiscal years 2007 and 2006 is provided in the MD&A.

### **Plan Financial Condition**

The funding objective of the RSA pension trust funds is to meet long-term benefit requirements through contributions, which remain relatively level as a percent of member payroll over time, and through investment earnings. Historical information concerning funding progress is presented in the *Required Supplementary Information* - “Schedule of Funding Progress” on page 40.

At the date of the latest actuarial valuations (9/30/06), the number of participants in the TRS, ERS, and JRF was 222,294, 129,396, and 656, respectively. The TRS’s, ERS’s, and JRF’s last valuations were performed as of September 30, 2006. The TRS’s funded percentage decreased from 83.6% at September 30, 2005 to 82.8% at September 30, 2006. The ERS’s funded percentage decreased from 84.0% at September 30, 2005 to 81.1% at September 30, 2006. The JRF’s funded percentage increased from 85.5% at September 30, 2005 to 86.4% at September 30, 2006.

### **Investment Activity**

Total investments for the RSA increased in fiscal year 2007, primarily due to increases in the fair value of investments. Investment balances for the TRS, ERS, and JRF at September 30, 2007 were \$21.6 billion, \$10.3 billion and \$268.2 million, respectively, compared to investment balances for the TRS, ERS, and JRF at September 30, 2006 of \$19.0 billion, \$8.9 billion, and \$243.8 million, respectively. Total pension fund investments managed by the RSA increased from \$28.1 billion at September 30, 2006 to \$32.1 billion at September 30, 2007, a 14.2% increase.

Interest and dividend income for the TRS, ERS, and JRF for the fiscal year ended September 30, 2007 was \$719.9 million, \$347.3 million, and \$8.5 million, respectively, compared to \$703.2 million, \$329.5 million, and \$9.6 million, respectively, for the fiscal year ended September 30, 2006. The increase in fair value of investments for the TRS, ERS, and JRF for the fiscal year ended September 30, 2007 was \$2.6 billion, \$1.2 billion and \$26.0 million, respectively, compared to the increase in fair value of investments of \$878.7 million, \$375.0 million, and \$11.2 million, respectively, for the fiscal year ended September 30, 2006. Additional information concerning investments, including investment policies and procedures, are located in the Investment Section.

The staff will continue to purchase and develop investments that will facilitate the mission of the RSA and serve the interests of our members by preserving the excellent benefits and soundness of the RSA while providing these at the least expense to the State of Alabama and all Alabama taxpayers. With the continued cooperative efforts of the Boards of Control, the RSA staff, and the Legislature, this goal will be achieved.

### **Management’s Discussion and Analysis**

GASB Statement No. 34 requires that management provide a narrative introduction, overview, and analysis to accompany the Financial Statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditors’ Report.

### **Legislation Enacted During Fiscal-Year 2007**

Act 2007-296 authorized a one time lump-sum payment to certain retirees and beneficiaries of the Teachers’ Retirement System (TRS) whose effective date of retirement for purposes of receiving benefits was prior to December 14, 2007, and who were receiving or was entitled to receive a monthly allowance from the TRS on December 14, 2007. The payment was twenty-four dollars for each year of service.

Act 2007-257 authorized a one time lump-sum payment to certain retirees and beneficiaries of the Employees' Retirement System (ERS) whose effective date of retirement for purposes of receiving benefits was prior to December 14, 2007, and who were receiving or was entitled to receive a monthly allowance from the ERS on December 14, 2007. The payment was twelve dollars for each year of service.

#### **Professional Services**

Professional consultants are appointed by the Boards of Control to perform professional services that are essential to the effective operation of the TRS, ERS, and JRF. The certification letters from the independent actuary are included in this report. The professional consultants appointed by the Boards of Control are listed on page 9 of this report.

#### **Financial Statement Audit**

KPMG LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the RSA's financial statements for the fiscal year ended September 30, 2007. The independent auditors' report is located at the front of the financial section of this report.

#### **Highlights and Initiatives**

The Battle House, a Renaissance Hotel in Mobile, opened its doors in May 2007. Once the upgrade to the Riverview Plaza is finished later this year, it and the Battle House will make up part of the Renaissance Center in Mobile. The Battle House, which originally opened in 1852, closed in 1974 and was vacant until the RSA reopened it earlier this year. The historic hotel is also connected to the new 35-story RSA Battle House Tower, the tallest building in the state of Alabama.

In other RSA real estate news, construction continues on our eighth project, The Renaissance Montgomery Hotel and Spa, which includes a civic center upgrade and expansion, a new performing arts theater, and a 600-car parking deck. The project is expected to be completed in early 2008. Additionally, work continues on the new eight-story office building being added to the State Capitol Complex. The 280,000 square foot structure will be the new headquarters for the RSA and is expected to be completed in mid-2008.

During the fiscal year, the RSA provided the bridge financing – our largest industrial loan to date – of up to \$350 million to National Alabama Corporation. This company is an affiliate of National Steel Car of Canada; the new railcar manufacturing plant being constructed in the Shoals will produce 8,000 – 10,000 rail cars per year and employ approximately 1,800 workers. The RSA also provided financing to Raycom Media for its recent acquisition of three television stations and Lincoln Financial Sports from Lincoln National Corporation. Following the closing, Raycom stations will cover over 10.5% of U.S. households with operations in 18 states. Raycom currently owns and operates 37 stations in 17 states. Community Newspaper Holdings, Inc. owns and operates 92 daily newspapers as well as 71 non-daily newspapers and numerous specialty publications across 23 states.

The staff will continue to purchase and develop investments that will facilitate the mission of the RSA. Our aim is to serve the interests of our members by preserving the excellent benefits and soundness of the Systems while providing these at the least expense to the State of Alabama and all Alabama taxpayers. With the continued cooperative efforts of the Boards of Control, the RSA staff, and the Legislature, this goal will be achieved.

#### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement Systems of Alabama for its comprehensive annual financial report for the fiscal year ended September 30, 2006. The Certificate of Achievement is a prestigious national award, which recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.



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A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

**Acknowledgments**

The compilation of this report reflects the combined effort of the staff under the leadership of the Boards of Control. It is intended to provide extensive and reliable information as a basis for making management decisions, determining compliance with legal provisions, and determining responsible stewardship of the funds of the TRS, ERS, and JRF.

I would like to take this opportunity to express my gratitude to the staff, the Boards of Control, the consultants, the Legislature, and to the many people who have worked so diligently through continued cooperative efforts to assure the successful operation and financial soundness of the TRS, ERS, and JRF.

Sincerely,

*Norman D. Turnipseed*

Norman D. Turnipseed, CPA  
Chief Accountant & Fiscal Officer

*David G. Bronner*

David G. Bronner, Ph.D., J.D.  
Chief Executive Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## The Retirement Systems of Alabama

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Oliver S. Cox*

President

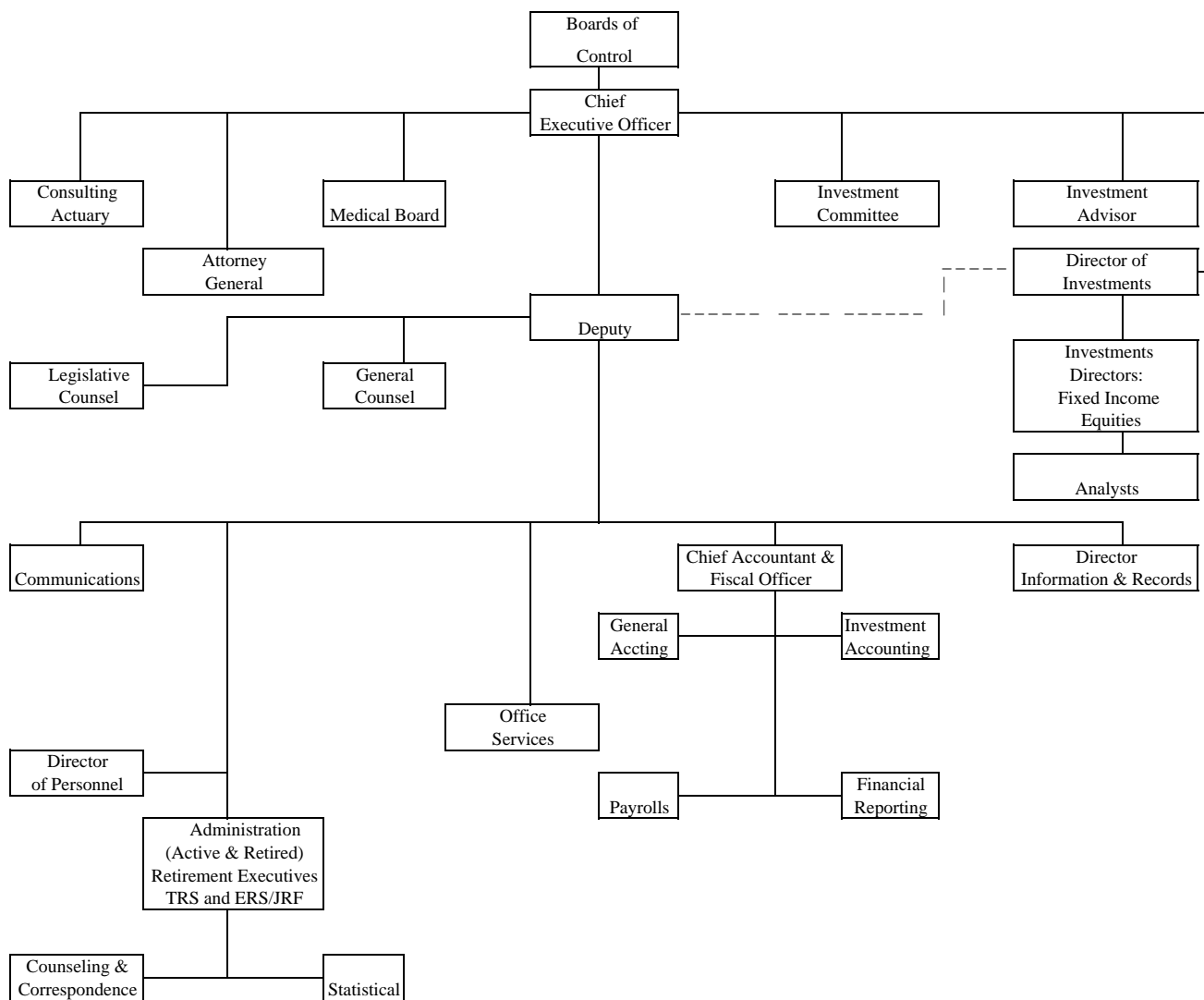
*Jeffrey R. Emer*

Executive Director

# RETIREMENT SYSTEMS OF ALABAMA

## Introductory Section

### Organization Chart



**Teachers' Retirement System Board of Control**

**Ex Officio Members**

Chairman, Dr. Paul R. Hubbert, Executive Secretary, AEA  
Jim Main, State Finance Director  
Kay Ivey, State Treasurer  
Dr. Joseph Morton, State Superintendent of Education

**Elected Members**

Vice-Chairman, Mrs. Sarah Swindle, Retired Position  
Ms. Judy Rigdon, Teacher Position  
Dr. Susan Williams Brown, Postsecondary Position  
Ms. Judy West Bell, Teacher Position  
Dr. J. Terry Jenkins, Superintendent Position  
Dr. Carl Ponder, Principal Position  
Ms. Sallie B. Cook, Retired Position  
Mr. Robert W. Smith, Jr., Support Personnel Position  
Mrs. Teresa Harbison, Teacher Position  
Ms. Sharon P. Saxon, Support Personnel Position

**Employees' Retirement System Board of Control\*\***

**Ex Officio Members**

Chairman, Bob Riley, Governor  
Jim Main, State Finance Director  
Kay Ivey, State Treasurer  
Jackie Graham, State Personnel Director

**Elected Members**

Mr. Clyde Sellers, Retired Local Employee  
Mrs. Ann Gant, Active Local Employee  
Mr. Ronald Matthews, Active Local Employee  
Ms. Mary Lou Foster, Retired State Employee  
Ms. Alice Thornton, Active State Employee  
Mr. Stephen C. Walkley, Active State Employee

**Appointed Members**

Vice-Chairman, Mr. John H. Wilkerson, Jr.  
Mr. Robert H. Pruitt  
Mr. Robert S. Miller

\*\* The Employees' Retirement System Board of Control is responsible for the administration of both the Employees' Retirement System and the Judicial Retirement Fund.

## RETIREMENT SYSTEMS OF ALABAMA

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### *Introductory Section*

#### Staff, Advisors, and Medical Board

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#### **Staff, Advisors, and Medical Board**

David G. Bronner, Ph.D., J.D., Chief Executive Officer

Marcus H. Reynolds, Jr., J.D., Deputy Director

#### **Administrative Staff**

Chief Accountant and Fiscal Officer, Norman D. Turnipseed, M.B.A., C.P.A.

Director of Information Technology Services, Peggi L. Douglass, M.B.A.

Teachers' Retirement Executive, Donald L. Yancey, M.P.A., J.D.

Employees' & Judicial Retirement Executive, R. Donald Nelson, M.S.

Legislative Counsel, Lindy J. Beale, J.D.

General Counsel, William F. Kelley, Jr., J.D.

General Counsel, William T. Stephens, J.D.

Director of Communications, Michael E. Pegues, M.A.

#### **Investment Staff**

Director of Investments, Marc Green, M.B.A., C.F.A.

Director of Private Placements, M. Hunter Harrell, M.B.A., J.D., C.F.A.

Assistant Director of Equities, Steven R. Lambdin, M.B.A., C.P.A., C.F.A.

Director of Fixed Income, Julie S. Barranco, M.B.A., C.F.A.

Equity Analyst, Zach Turnage, M.B.A., C.F.A.

Equity Analyst, G. Allan Carr Jr., M.B.A., C.F.A.

Equity Analyst, Kevin W. Gamble, M.B.A., C.F.A.

Equity Analyst, Keith Buchanan, M.B.A.

Equity Analyst, Adam Rogers, M.B.A.

Fixed Income Analyst, C. Lance Lachney, M.B.A., C.F.A.

Fixed Income Analyst, Nick Prillaman, M.B.A.

Cash Management & Operations, Nancy H. Sprayberry

#### **Advisors and Professional Service Providers**

Independent Certified Public Accountants, KPMG LLP

Regions Bank, Mr. Brian Sullivan, Investment Consultant

State Street, Investment Custodian

Cavanaugh Macdonald, Mr. Edward A. Macdonald

Attorney General, Mr. Troy King

Chief Examiner, Mr. Ronald L. Jones

#### **Medical Board**

Chairman, Neil Stronach, M.D.

Malcolm Brown, M.D.

Glen Yates, M.D.

